

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Fixed Income -
Panel on Securities Lending

ITEM NUMBER: 4

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: May 5, 1999

INFORMATION: X

PRESENTER(S): Mr. Mitchell

EXECUTIVE SUMMARY

One of the objectives for the 1998/99 fiscal year is to provide the Investment Committee with a series of educational presentations to assist in the managing and monitoring of the investment portfolio. This is the seventh of ten scheduled presentations for the coming year. The topic is "Securities Lending".

CalSTRS first began lending its assets, which were entirely domestic at the time, in 1988, through its Master Custodian, State Street Bank. Since that time the program has grown to include additional lenders, as well as international assets. In 1997, the Investment Committee approved the internal management of a portion of the cash collateral proceeds within the securities lending program.

Attachment 1 provides a biographical summary of three investment professionals representing a panel that is designed to allow a maximum amount of interaction. Each Panelist will cover a different area in Securities Lending. The following identifies the panelists and the subjects to be discussed:

- Mr. Tom Hayes, President of Metropolitan West – What Drives Securities Lending?
- Mr. Ralph Vitale, Executive Vice President of State Street Bank – Collateral Management for Securities Lending.
- Mr. Orrin Bargerhuff, President of Bargerhuff and Associates – Managing the Operational Risk Associated with Securities Lending.

Each panelist will make a five-minute presentation. After the completion of the three presentations, a question and answer session will follow.

BIOGRAPHIES

THOMAS W. HAYES

Thomas W. Hayes is Metropolitan West's President. He joined Metropolitan West Securities in 1993, and has served as its President since 1994. He also serves as a Board member for all MetWest Companies.

In December 1994, Mr. Hayes was requested by the Governor to assume responsibility for restructuring Orange County's hemorrhaging investment pool. Losses in this pool caused the largest government bankruptcy in the history of the country. During this restructuring, he planned and supervised the orderly sale and replacement of over \$8 billion in securities. The final result was the conversion of a risky investment pool with limited liquidity to a pool that is safe and liquid.

Prior to joining the private sector in 1993, Mr. Hayes served as the State of California's Director of Finance. As the Director of Finance, he was the Governor's chief fiscal advisor and was responsible for developing and managing California's \$60 billion budget.

From January 1989 through January 1991, he served as the 27th State Treasurer of the State of California. He was responsible for the management of the State's \$20 billion investment portfolio and the sale of billions of dollars in bonds annually. During this time, he served as a Board Member of the California Public Employees' Retirement System (PERS) and the State Teachers' Retirement System (STRS).

Mr. Hayes served as California's Auditor General from 1979 to 1989. Mr. Hayes is a former Marine Officer who saw combat in Vietnam. He has served as an advisor and consultant to numerous other states, professional organizations, private corporations and foreign countries, including Thailand, Indonesia, Vietnam and the Philippines.

Mr. Hayes has received three national awards for his achievements in financial management. He received a MBA from San Jose State University and is the 1985 recipient of that University's Distinguished Alumnus Award.

Securities Licenses: Series 7,27,53,63

Other Positions:

Director, Metropolitan West Financial, Inc.

Director, Fremont Funding, Inc.

Commissioner, California World Trade Commission

Trustee, Golden Eagle Insurance Trust

Representative, Orange County Litigation Fund

Vice Chairman, Metropolitan West Asset Management

RALPH F. VITALE

Ralph F. Vitale, Executive Vice President, is head of the Global Securities Lending division, and is responsible for State Street's securities lending businesses worldwide. Mr. Vitale joined State Street in 1986 as a Vice President in the Master Trust division, and assumed responsibility for developing the securities lending business in 1988. In 1991, he was made head of the newly formed division. He was promoted to Senior Vice President in 1992, and Executive Vice President in 1997. Mr. Vitale is also responsible for Askari, a risk management firm acquired in 1998.

Mr. Vitale began his career in the financial industry in 1974, after majoring in photographic science at Rochester Institute of Technology, and working four years as a commuter airline pilot. In his ten years at Burgess & Leith in Boston, he attained the position of Senior Vice President and Operations Officer. He also worked in Boston as an account executive at Paine Webber.

Mr. Vitale is a past chairman of the Securities Lending Committee of Robert Morris Associates, representing U.S. securities lending banks.

ORRIN J. BARGERHUFF

Orrin J. Bargerhuff is founder of Bargerhuff & Associates, Inc., a Dallas based firm providing securities lending advisory services exclusively to pension plans, public funds, and other institutional funds. Risk and performance composites on the securities lending marketplace by Bargerhuff and Associates are currently comprised of actual results from \$500 billion in fund assets among 12 securities lending agents. Highlights of these composites are featured quarterly in Pension & Investments.

Prior to Bargerhuff & Associates, Orrin was head of Northern Trust's Global Securities Lending Services and chair of Northern's Institutional Investment Compliance Committee. His responsibilities included trading, collateral investment, risk management and business development for Northern's sizable Chicago, London, and Hong Kong securities lending activities, as well as Northern's overall institutional investment compliance.

Orrin chaired the Robert Morris Associates (RMA) Industry Committee on Securities Lending for three years. He has also served as a member of the Securities Industry Association/RMA Securities Lending Committee. In his various capacities, Orrin has been active with the Department of Labor, Federal Reserve Board, Office of the Comptroller of the Currency, Securities Investor Protection Corporation, and other international agencies on securities lending issues and industry development.

Before joining Northern's Securities Lending division, Orrin was Chief Financial Officer of Northern's Farm Management subsidiary and a Manager in Northern's Master Trust Operations. Orrin received his MBA from The University of Chicago Graduate School of Business, and his BA from DePauw University in Greencastle, Indiana.